Preliminary position paper

Framework and Approach paper for ElectraNet transmission determination 2028–33
(1 July 2028 – 30 June 2033)

April 2026

AUSTRALIAN ENERGY REGULATOR

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1 Framework and Approach paper

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO).

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. ElectraNet Pty Limited (ABN 41 094 482 416) (hereby ElectraNet) is due to submit its next revenue proposal by 31 January 2027, for the period 1 July 2028 to 30 June 2033 (2028–33 period).

The first step in our process to determine efficient prices for an electricity transmission service is to publish a Framework and Approach paper (F&A). The F&A sets our approach to key elements of the upcoming determination and facilitates early public consultation before businesses prepare and submit their revenue proposals. These elements include:

- which incentive schemes will apply, for example, to service quality, improvements in network reliability or capital and operating expenditure.[1] The purpose of incentive schemes is to provide network service providers with incentives to only incur efficient costs and to meet or exceed service quality targets.
- our approach to setting efficient expenditure allowances[2] and depreciation for the establishment of the opening regulatory asset base for the upcoming regulatory control period[3].

The F&A that has applied to ElectraNet in the 2023–28 regulatory control period was published in July 2021.[4] Since then, we have seen significant changes in the energy market and the rules, schemes and guidelines under which we regulate electricity networks. We have finalised reviews into the capital expenditure sharing scheme (CESS), efficiency benefit sharing scheme (EBSS) and service target performance incentive scheme (STPIS), which resulted in a new version of CESS (version 4) and STPIS (version 6).

In December 2025, we therefore confirmed that we would review and amend the F&A for ElectraNet in order to update it for recent changes to incentive schemes and guidelines.

This paper sets out our preliminary positions on amendments and revisions to each of the elements above and invites stakeholder views to inform our final decision.

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1 NER, cll. 6A.10.1A(b)(1), (2), (3), (4) and (7).

2 NER, cll. 6A.10.1A(b)(5).

3 NER, cll. 6A.10.1A(b)(6).

4 AER, *ElectraNet 2023–28 - Framework and approach*, July 2021.

1.1 About this consultation

The NER provides for a review of the F&A every five years in preparation for the next regulatory determination.

On 29 October 2025, ElectraNet wrote to us, asking us to consider amending or replacing their 2023–28 F&A in preparation for the 2028–33 period. In November 2025, we published this letter[5] on our website and sought submissions from stakeholders on whether amendments to, or replacement of, the F&A is necessary or desirable.[6]

Having received no submissions, we issued our Second Notice in December 2025 to commence the review. We considered the information provided by ElectraNet and decided that we would make an amended F&A for ElectraNet for the 2028–33 regulatory control period. Our reasons for commencing this review were set out in our decision published on 19 December 2025.[7]

As indicated in that paper, we are now engaging with stakeholders as we consider preliminary positions on the amendments required, before making a final decision on an amended F&A in July 2026.

Submissions

We invite stakeholders to make written submissions on our preliminary positions by Friday, 8 May 2026. Submissions should be emailed to AERresets2028-33@aer.gov.au.

Alternatively, you can email submissions to:

Kami Kaur
Acting Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131,
Canberra ACT 2601

Submissions should be in Microsoft Word or other text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

We request parties wishing to submit confidential information: clearly identify the information that is the subject of the confidentiality claim; and provide a non-confidential version of the submission in a form suitable for publication.

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5 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025.

6 AER, *ElectraNet - Transmission Determination 2028-33 - Consultation on F&A*, 14 November 2025.

7 AER, *ElectraNet 2028-33 framework and approach - Decision to amend*, 19 December 2025.

2 Service Target Performance Incentive Scheme

We administer and maintain the service target performance incentive scheme (STPIS) in accordance with the requirements of the NER.[8] The purpose of the STPIS is to provide incentives to transmission network service providers (TNSPs) to provide greater transmission network reliability, and improve and maintain the reliability of the elements of the transmission network most important to determining spot prices.[9]

2.1 AER's preliminary position

Our preliminary position is that we will apply version 6 of the STPIS to ElectraNet for the 2028–33 regulatory control period. Version 6 of the STPIS came into effect on 17 April 2025.[10]

Under version 6 of the STPIS, the following 2 parameters will apply to ElectraNet:

- the service component (SC), which incentivises TNSPs to reduce the frequency of unplanned outages and the time taken to return the network to service, and
- the network capability component (NCC) which incentivises businesses to identify transmission network limits and increase capability by undertaking projects with a capital cost of less than the Regulatory Investment Test for Transmission (RIT-T) threshold and which are likely to result in a material benefit.

Version 6 includes the following changes to the SC and NCC (compared to version 5):

- we have amended the SC to remove rounding in setting targets for the loss of supply frequency parameter
- we have amended the NCC to no longer require TNSPs to submit a Network Capability Incentive Parameter Action Plan as part of their revenue proposal, but rather to require TNSPs to identify the projects in their Transmission Annual Planning Report that should be the subject of the NCC for our approval each year.

Under version 6 of the STPIS, the Market Impact Component (MIC)[11] (which applies in version 5 of the STPIS) has been suspended. As per our explanatory statement[12], we are undertaking a process to explore alternatives to the MIC through a working group comprising

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8 NER, cl. 6A.10.1A(b)(1).

9 NER, cl. 6A.7.4(b)(1).

10 On 13 November 2025, the Australian Energy Market Commission (AEMC) began consulting on a Rule change proposed by the AER entitled *Early application of a revised transmission Service Target Performance Incentive Scheme*. The Rule change request would allow the AER to reopen a TNSP's revenue determination for the purpose of applying version 6 of the STPIS before the end of a TNSP's regulatory control period. The AEMC has advised that any final rule is expected to be published in May 2026.

11 The MIC incentivises TNSPs to minimise the financial impact of outages on the dispatch of generation.

12 AER, *Transmission STPIS - Final Amendments: Explanatory Statement*, April 2025, p. 13.

industry stakeholders and market bodies. Working group meetings have already commenced, and it is expected the working group will report its findings by mid to late 2026.

On 28 August 2025, the AER submitted a Rule change proposal to the AEMC seeking to amend the NER to allow us to reopen a TNSP's revenue determination for the purpose of applying a revised STPIS during a regulatory control period.

On 19 February 2026, the AEMC published its *Early application of a revised transmission Service Target Performance Incentive Scheme* draft rule. The draft rule would apply components of version 6 sooner to:

- disapply the market impact component (MIC) for a transmission network service provider's (TNSP) performance from 1 January 2026.
- amend the target for the loss of supply frequency parameter under the service component (SC) for TNSP performance from 1 July 2026.

The effect of the draft rule is that the latest amendments to the STPIS (version 6) related to the SC and the MIC would apply to ElectraNet before the end of its 2023–28 regulatory control period. Under the draft Rule, there is no early adoption of the NCC.

In the event that, as a result of the findings of the Working Group, the AER replaces the MIC in the STPIS and publishes version 7, the AER will need to make a decision as to whether it will apply version 7 during ElectraNet's 2028–33 regulatory control period.

3 Efficiency Benefit Sharing Scheme

The efficiency benefit sharing scheme (EBSS) is intended to provide a continuous incentive for transmission businesses to pursue efficiency improvements in operating expenditure (opex) and provide for a fair sharing of these between businesses and consumers. Consumers benefit from improved efficiencies through lower network prices in future regulatory control periods.

In its 29 October 2025 letter to the AER, ElectraNet supported the continued application of the EBSS. However, ElectraNet noted further amendments to the EBSS might be necessary to account for the shift of some capitalised assets to operating expenditure, which it states could trigger rewards or penalties unrelated to actual performance.[13]

3.1 AER's preliminary position

Our preliminary position is that our 2028–33 determination for ElectraNet will apply the EBSS (version 2) introduced in 2013[14] and maintained in the 2023 review. This is based on:

- the continuation of ElectraNet's historical application of the EBSS, in conjunction with the CESS in its revenue determinations. Noting that the benefit to consumers is improved when both schemes are in operation.
- the expectation that ElectraNet, as it has in the past, will apply a revealed cost method to forecasting its base opex, and that its base opex will reflect efficient audited costs. This is to prevent windfall gains or losses to a TNSP as a result of the application of the EBSS.[15]

In response to ElectraNet's letter, our position is to maintain the current practice of applying the EBSS to total opex, subject to the exclusions specified in the scheme. This includes opex that was once capitalised due to changes in accounting treatment such as lease costs and software-as-a-service. Doing so maintains the strongest possible incentive for ElectraNet to manage its total opex efficiently, similar to a business in the competitive market.

However, if a change in accounting treatment were to occur during the regulatory period, we would exclude the impact of *mid-period* capitalisation and/or accounting treatment changes until the start of a new period. We do this to ensure the EBSS rewards (and penalties) reflect genuine efficiency changes rather than capitalisation and/or accounting treatment changes. This adjustment would ensure no windfall gains or losses occur as a result of changes to accounting treatment.

In considering opex forecasts for the 2028–33 regulatory period, we would take into account the possible effect that recent accounting treatment changes might have on benchmarking tools used to assess those forecasts. We don't expect these changes would affect a networks ability to accurately forecast opex.

Moreover, as per the NER, our preliminary position to apply the EBSS, is contingent on the AER being satisfied that the EBSS will fairly share efficiency gains and losses between

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13 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, pp. 1-2.

14 AER, *Efficiency benefit sharing scheme*, 29 November 2013.

15 AER, Explanatory statement – efficiency benefit sharing scheme, November 2013, p. 17.

ElectraNet and customers.[16] It is also contingent on ElectraNet's base opex forecast being based on its audited revealed costs. We will consider these issues during our transmission determination for ElectraNet for the 2028–33 regulatory control period.

16 NER, cl. 6A.6.5(a).

4 Capital Expenditure Sharing Scheme

The capital expenditure sharing scheme (CESS) provides financial rewards to TNSPs whose capital expenditure (capex) becomes more efficient and financial penalties for TNSPs whose capex becomes less efficient. Consumers benefit from improved efficiency through lower regulated prices.

The CESS approximates efficiency gains and efficiency losses by calculating the difference between forecast and actual capex. It shares these gains or losses between TNSPs and network users.

The CESS mechanism was updated in August 2025 following a review into incentive schemes in 2023 and to reflect changes to the rules to better manage uncertainty for ISP projects.[17] In its 29 October 2025 letter[18] to the AER, ElectraNet supported the application of the updated version of the CESS. However, ElectraNet contended that the South Australian portion of Project Energy Connect, which is now completed, should not be subject to CESS penalties (for expenditure in the 2023–28 regulatory period) under a revised incentive regime. This is because it was completed prior to the revision of the CESS. ElectraNet also noted that a 'modified' application of the CESS might be considered for the 2028–33 regulatory period for the Northern Transmission Project.

4.1 AER's preliminary position

Our preliminary position is that ElectraNet will be subject to the updated Capital Expenditure Incentive Guideline (version 4) for the 2028–33 regulatory period. This includes:

- updates following our 2023 review to:
  - apply a lower sharing factor of 20% to any underspend amount greater than 10% of the approved forecast capital expenditure allowance
  - introduce new transparency measures which require TNSPs to explain variations between capital expenditure forecasts and outcomes
  - provide further guidance and flexibility on the application of the CESS to large transmission projects.
- updates following our 2025 review to:
  - incorporate AEMC's amending rule on managing Integrated System Plan (ISP) project uncertainty, which requires the AER to carry out a separate targeted ex-post review for ISP projects
  - allow for exclusions to the CESS in certain circumstances
  - allow for adjustments to the CESS to accommodate abandoned ISP projects.

These recent updates to the application of the CESS are designed to improve the incentive for TNSPs to pursue efficient improvements to the network for the benefit of network users.

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17 AER, *Capital Expenditure Guideline Review 2025*, 26 August 2025.

18 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, pp. 2-3.

We consider the recent updates to the CESS would provide the flexibility required in applying the CESS to ElectraNet's circumstances for the 2028–33 regulatory period.

4.1.1 The CESS and large transmission projects

To better manage uncertainty related to large transmission projects, the capex incentive guidelines were updated such that:

- the AER has discretion to modify (ex-ante) the application of the CESS to large contingent projects under limited circumstances.
- in the event of cost overruns of an ISP project during a regulatory determination period, the AER:
    - must conduct a separate ex-post review of the project to determine the efficient capex that can be rolled into the regulatory asset base for the following regulatory control period;
    - has the discretion to reduce the CESS penalties associated with the cost overrun to balance the impact of any reduction to the opening RAB for the 2028–33 regulatory period as a result of an ex post review.

We note that ElectraNet is supportive of the CESS, and our view is that these adjustments to the guidelines meet the needs of ElectraNet, other TNSPs and stakeholders.

Our default will be to apply the CESS to large contingent projects. However, we will consider the merits for making ex-ante modifications to the CESS on a case-by-case basis.

In determining, ex post, the application of CESS penalties to ISP-related projects, we would take into account factors such as whether the TNSP has demonstrated it has reasonably managed and prioritised its total capex, and the degree to which the overspend was due to factors beyond the TNSP's control.

5 Small-scale incentive scheme

The NER provide that we may develop small-scale incentive schemes (SSIS)[19] for TNSPs to test innovative incentive approaches that drive further improvements in network service delivery for the long-term benefit of electricity consumers.

There is currently no SSIS applicable to TNSPs. In its 29 October 2025 letter to the AER, ElectraNet noted that the AER has not chosen to develop such an incentive scheme to date, hence no such scheme currently exists for ElectraNet for upcoming regulatory period. However, ElectraNet intends to remain open to discuss the potential merits of such a scheme in the long-term interests of customers if the AER chooses to implement an SSIS.[20]

ElectraNet has not yet proposed a detailed transmission incentive design developed in conjunction with its customers. As such, we do not propose to apply a SSIS to ElectraNet for the 2028–33 regulatory control period. However, we would consider an application if ElectraNet were to make a business case in its revenue proposal.

In developing a SSIS, ElectraNet would need to engage with their customers and identify the customer services to be improved, and propose setting targets to improve those services.

19 NER, cl. 6A.7.5.

20 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, p. 3.

6 Demand management incentive allowance mechanism

In accordance with the NER[21] and following stakeholder consultation on a draft Demand Management Incentive Allowance Mechanism (DMIAM), we published a final DMIAM for electricity transmission networks on 27 May 2021.[22] The DMIAM provides TNSPs with funding for research and development in demand management projects that have the potential to reduce long-term network costs.

The learnings and insights from these initiatives are expected to be shared across industry and with consumers. Transmission businesses that participate in the DMIAM are required to provide annual compliance reports to demonstrate that its DMIAM related expenditure meets the requirements of the DMIAM.

We applied the DMIAM to ElectraNet for the 2023–28 regulatory control period.[23] In its 29 October 2025 letter[24] to the AER, ElectraNet noted that although it has not yet identified any suitable projects for DMIAM funding (in the 2023–28 regulatory period), it will continue to work with stakeholders to identify projects that may meet the criteria over the remaining years of the 2023–28 regulatory period.

ElectraNet considers that if it would only be prudent to seek DMIAM funding for the upcoming period if it can identify suitable projects. For this reason, ElectraNet considers the most appropriate position is to defer a decision on whether the DMIAM should apply in the 2028–33 period until more information is available. ElectraNet proposes to confirm its position as part of its upcoming regulatory proposal to be lodged in January 2027.[25]

21 NER, cl. 6A.7.6.

22 AER, *Demand management innovation allowance mechanism - Transmission*, May 2021.

23 AER, *ElectraNet 2023–28 - Framework and approach*, July 2021, p. 22.

24 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, p. 3.

25 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, p. 3.

7 Expenditure forecast assessment guideline

Our preliminary position is that we will apply the updated Expenditure Forecast Assessment Guideline in our assessment of the ElectraNet's proposal for the 2028–33 regulatory control period.

The Expenditure Forecast Assessment Guideline sets out our expenditure forecast assessment approach.[26] It outlines the assessment techniques we will use to assess ElectraNet's proposed expenditure forecasts and the information we require from ElectraNet.

The Expenditure Forecast Assessment Guideline provides ElectraNet with clarity regarding the information it should include in its revenue proposal. This contributes to an open and transparent process and makes our assessment of expenditure forecasts more predictable.

The Expenditure Forecast Assessment Guideline contains a suite of assessment/analytical tools and techniques that the AER can use to test the prudency and efficiency of a network business' proposed expenditure. These include:

- models for assessing proposed replacement and augmentation capex
- benchmarking (including broad economic techniques and more specific analysis of expenditure categories)
- methodology, governance and policy reviews
- predictive modelling and trend analysis
- cost benefit analysis and detailed project reviews.[27]

We exercise judgement to determine the extent to which we use a particular technique to assess a regulatory proposal. We use the techniques we consider appropriate depending on the specific circumstances of the determination.

On 16 October 2024, we released an update to our Expenditure Forecast Assessment Guidelines (distribution and transmission) to give effect to the new emissions reduction component of the national energy objectives.

ElectraNet did not propose changes to the application of the Expenditure Forecast Assessment Guideline. However, ElectraNet highlighted limitations in the current AER TNSP benchmarking methodology for assessing transmission business expenditure. [28]

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26 AER, *Expenditure forecast assessment guideline*, 29 November 2013 (updated 16 October 2024).

27 AER, *Explanatory statement - expenditure forecast assessment guideline*, 29 November 2013.

28 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, p. 3.

8 Depreciation to establish the opening RAB

Our preliminary position, consistent with the Capital Expenditure Incentive Guideline,[29] is to continue using depreciation based on forecast capital expenditure for establishing the opening regulatory asset base at the commencement of the 2033–38 regulatory control period. This is also consistent with the approach adopted for ElectraNet's 2023–28 determination.[30] ElectraNet indicated that it will not seek to depart from this approach.[31]

As part of the roll forward methodology, when the regulatory asset base (RAB) is updated from forecast capex to actual capex at the end of a regulatory control period, it is also adjusted for depreciation. The depreciation we use to roll forward the RAB can be based on either:

- actual capex commissioned during the regulatory control period (actual depreciation). We roll forward the RAB based on actual capex less the depreciation on the actual capex; or
- the capex allowance forecast at the start of the regulatory control period (forecast depreciation). We roll forward the RAB based on actual capex less the depreciation on the forecast capex approved for the regulatory control period.

ElectraNet's 2023–28 determination is subject to the CESS. As set out in section 4 above, we propose to continue to apply the CESS in the 2028–33 regulatory control period. We consider that the incentive provided by the application of the CESS, in combination with the use of forecast depreciation and our other ex-post capex measures, will be sufficient to achieve the capex incentive objective.

29 AER, *Capital expenditure incentive guideline*, August 2025, pp. 15–16.

30 AER, *ElectraNet 2023–28 - Framework and approach*, July 2021, pp. 25–27.

31 ElectraNet, *Letter to AER on Framework and Approach*, 29 October 2025, p. 3.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
F&A	framework and approach paper
ISP	Integrated System Plan
MIC	market impact component
NCC	network capability component
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
opex	operating expenditure
RAB	regulatory asset base
RIT-T	regulatory investment test for transmission
SC	service component
SSIS	Small-scale incentive scheme
STPIS	service target performance incentive scheme
TNSP	transmission network service provider